

**INTERNATIONAL LEADERSHIP
CHARTER HIGH SCHOOL**

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2018

(With Comparative Totals For 2017)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	10
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
 <u>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</u>	 21

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
International Leadership Charter High School

Report on the Financial Statements

We have audited the accompanying financial statements of International Leadership Charter High School, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Leadership Charter High School as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of International Leadership Charter High School for the year ended June 30, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on November 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018 on our consideration of International Leadership Charter High School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering International Leadership Charter High School's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
November 1, 2018

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(With Comparative Totals For 2017)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 71,488	\$ 40,312
Grants and other receivables	341,857	249,127
Prepaid expenses	<u>45,208</u>	<u>-</u>
TOTAL CURRENT ASSETS	458,553	289,439
<u>PROPERTY AND EQUIPMENT</u>		
Building	17,910,505	17,602,651
Land	2,530,000	2,530,000
Furniture and fixtures	292,309	292,309
Computers and equipment	<u>131,801</u>	<u>124,296</u>
	20,864,615	20,549,256
Less accumulated depreciation and amortization	<u>1,409,022</u>	<u>911,633</u>
	19,455,593	19,637,623
<u>OTHER ASSETS</u>		
Restricted cash	2,788,286	2,805,264
Cash in escrow	75,222	70,050
Security deposit	<u>130,599</u>	<u>130,599</u>
	<u>2,994,107</u>	<u>3,005,913</u>
TOTAL ASSETS	<u>\$ 22,908,253</u>	<u>\$ 22,932,975</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 672,998	\$ 184,081
Accrued expenses	118,241	96,937
Accrued interest payable	591,377	598,231
Due to officer	4,250	4,250
Line of credit	94,952	98,818
Bonds payable - current portion	365,000	290,000
Deferred revenue	<u>3,334</u>	<u>275,207</u>
TOTAL CURRENT LIABILITIES	1,850,152	1,547,524
<u>OTHER LIABILITIES</u>		
Bonds payable, net of unamortized bond issuance costs	<u>18,929,304</u>	<u>19,260,537</u>
TOTAL LIABILITIES	20,779,456	20,808,061
<u>NET ASSETS, unrestricted</u>	<u>2,128,797</u>	<u>2,124,914</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,908,253</u>	<u>\$ 22,932,975</u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2018
(With Comparative Totals For 2017)

	<u>Year ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Revenue, gains, and other support:		
Public school district		
Resident student enrollment	\$ 4,928,365	\$ 5,130,023
Students with disabilities	474,609	402,810
Grants and contracts		
Federal - Title and IDEA	<u>255,394</u>	<u>239,445</u>
	TOTAL REVENUE, GAINS AND OTHER SUPPORT	
	5,658,368	5,772,278
Expenses:		
Program services:		
Regular education	3,402,541	3,581,412
Special education	<u>748,349</u>	<u>446,702</u>
	TOTAL PROGRAM SERVICES	
	4,150,890	4,028,114
Management and general	<u>1,588,867</u>	<u>1,317,461</u>
	TOTAL OPERATING EXPENSES	
	<u>5,739,757</u>	<u>5,345,575</u>
	(DEFICIT) / SURPLUS FROM SCHOOL OPERATIONS	
	(81,389)	426,703
Support and other revenue:		
Interest income	5,809	3,198
Miscellaneous income	<u>79,463</u>	<u>27,258</u>
	TOTAL SUPPORT AND OTHER REVENUE	
	<u>85,272</u>	<u>30,456</u>
	CHANGE IN NET ASSETS	
	3,883	457,159
Net assets at beginning of year	<u>2,124,914</u>	<u>1,667,755</u>
	NET ASSETS AT END OF YEAR	
	<u>\$ 2,128,797</u>	<u>\$ 2,124,914</u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018
 (With Comparative Totals For 2017)

	Year ended June 30,								
	2018							2017	
	Number of positions	Program Services			Supporting Services			Total	Total
Regular Education		Special Education	Sub-total	Management and general	Fundraising and special events	Sub-Total			
Personnel services costs:									
Administrative staff personnel	5	\$ 99,978	\$ 64,986	\$ 164,964	\$ 334,927	\$ -	\$ 334,927	\$ 499,891	\$ 446,940
Instructional personnel	20	949,097	150,412	1,099,509	-	-	-	1,099,509	1,117,973
Non-instructional personnel	2	21,785	47,917	69,702	123,074	-	123,074	192,776	231,913
TOTAL SALARIES AND STAFF	27	1,070,860	263,315	1,334,175	458,001	-	458,001	1,792,176	1,796,826
Fringe benefits & payroll taxes		162,670	39,999	202,669	69,574	-	69,574	272,243	248,976
Retirement		436	107	543	187	-	187	730	30,965
Legal Service		-	-	-	131,142	-	131,142	131,142	95,147
Accounting / audit services		-	-	-	124,159	-	124,159	124,159	88,089
Other purchased / professional / consulting services		286,706	70,499	357,205	122,623	-	122,623	479,828	190,640
Building and land rent / lease / facility finance interest		857,053	122,436	979,489	244,872	-	244,872	1,224,361	1,308,953
Repairs & maintenance		78,651	19,340	97,991	33,639	-	33,639	131,630	137,082
Insurance		47,779	21,783	69,562	37,889	-	37,889	107,451	145,598
Utilities		101,393	14,897	116,290	25,912	-	25,912	142,202	109,996
Supplies / materials		45,244	11,125	56,369	19,350	-	19,350	75,719	70,176
Equipment / furnishings		12,555	3,087	15,642	5,370	-	5,370	21,012	18,104
Staff development		69,778	17,158	86,936	29,844	-	29,844	116,780	107,125
Marketing / recruitment		15,789	3,882	19,671	6,752	-	6,752	26,423	13,279
Technology		50,057	12,308	62,365	21,408	-	21,408	83,773	84,408
Food service		165,782	40,765	206,547	70,905	-	70,905	277,452	198,053
Student services		70,063	17,228	87,291	29,966	-	29,966	117,257	106,081
Office expense		57,475	14,132	71,607	24,581	-	24,581	96,188	85,455
Depreciation		297,199	73,079	370,278	127,111	-	127,111	497,389	509,726
Other		13,051	3,209	16,260	5,582	-	5,582	21,842	896
		<u>\$ 3,402,541</u>	<u>\$ 748,349</u>	<u>\$ 4,150,890</u>	<u>\$ 1,588,867</u>	<u>\$ -</u>	<u>\$ 1,588,867</u>	<u>\$ 5,739,757</u>	<u>\$ 5,345,575</u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018
(With Comparative Totals For 2017)

	<u>Year ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 3,883	\$ 457,159
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	497,389	509,726
Amortization of bond issuance costs included in interest expense	33,767	33,767
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(92,730)	(163,636)
Prepaid expenses	(45,208)	2,414
Other assets	-	(4,200)
Accounts payable	230,064	(539,360)
Accrued expenses	21,304	6,289
Accrued interest payable	(6,854)	93,656
Deferred revenue	(271,873)	275,207
NET CASH PROVIDED FROM OPERATING ACTIVITIES	369,742	671,022
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(56,506)	(62,093)
Decrease (increase) in restricted cash	16,978	(792,511)
Increase in cash in escrow	(5,172)	-
NET CASH USED FOR INVESTING ACTIVITIES	(44,700)	(854,604)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments on line of credit	(3,866)	(582)
Repayments on loan from Fund for the City of New York	-	(221,250)
Proceeds from bonds payable	-	3,300,000
Repayment of bonds payable	(290,000)	(280,000)
Deferred financing costs	-	(173,000)
Construction costs payable	-	(2,422,545)
Due to officer	-	4,250
NET CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	(293,866)	206,873
NET INCREASE IN CASH	31,176	23,291
Cash at beginning of year	40,312	17,021
CASH AT END OF YEAR	<u>\$ 71,488</u>	<u>\$ 40,312</u>

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2018
(With Comparative Totals For 2017)

	<u>Year ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid for interest	<u>\$ 1,188,817</u>	<u>\$ 1,094,977</u>
<u>NON-CASH OPERATING AND INVESTING ACTIVITY</u>		
Property and equipment purchases included in accounts payable	<u>\$ 258,853</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(With Comparative Totals For 2017)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

International Leadership Charter High School (the “Charter School”), is an education corporation operating as a charter school in Bronx, New York. The Charter School opened in 2006 with a charter granted by the New York City Department of Education. On June 10, 2015, the New York City Department of Education granted the Charter School a provisional charter valid for a term of five years through June 30, 2020 and renewable upon expiration. In October 2017, the Charter School’s charter was transferred to the Board of Regents of the University of the State of New York. The Charter School’s provisional charter under the Board of Regents of the University of the State of New York is valid through June 30, 2020 and is renewable upon expiration.

The Charter School’s mission is to prepare the young men and women of the Bronx for not only the demands of higher education, but also for leading lives of meaning. This teaching philosophy provides powerful learning experiences that stress engagement, discovery, and the active application of learning to the world around us.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2018 or 2017.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2018 and 2017.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals For 2017)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Cont'd

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

Contributions are recognized as revenue in the year the pledge is received and documented.

Contributions

Contributions and unconditional promises to give are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

Cash balances are maintained at a financial institution located in New York and are insured by the FDIC up to \$250,000 at that institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Charter School maintains cash in an escrow account in accordance with the terms of its charter agreement. The amount in escrow was \$75,222 and \$70,050 at June 30, 2018 and 2017, respectively. The escrow funds are restricted to fund legal and other costs related to the dissolution of the Charter School, should this become necessary.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals For 2017)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Cont'd

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2018 or 2017.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives which range from five to thirty-nine years.

Security deposits

The Charter School was party to a lease agreement that expired in August 2016. As part of the lease agreement, the Charter School remitted \$142,737 to the landlord as a security deposit. At the conclusion of the lease in August 2016, \$16,338 was applied to various expenses charged by the landlord. The remaining balance of \$126,399 is due from the landlord. The Charter School will pursue legal action for the return of the security deposit, and therefore, no allowance has been recorded.

Bond issuance costs

Bond issuance costs, which consist of deferred financing charges, are stated at cost and are amortized over the term of the bonds which vary from 5 to 30 years through various dates up to July 2046.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant at which time it is recognized as revenue.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2015 through June 30, 2018 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

Contributed services

The Charter School receives contributed services from volunteers to serve on the Board of Trustees. In addition, the Charter School received transportation services that were provided for the students by the local district. The Charter School was unable to determine a value for these services.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals For 2017)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Cont'd

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. There were no in-kind contributions during the years ended June 30, 2018 and 2017.

Marketing and recruiting costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs were \$26,423 and \$13,279 for the years ended June 30, 2018 and 2017, respectively

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparatives for year ended June 30, 2017

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Reclassifications

Certain prior year balances were reclassified to conform with the current year presentation.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through November 1, 2018, which is the date the financial statements are available to be issued. Except as described in Note E and Note J, no subsequent events requiring disclosure were noted.

NOTE B: RELATED PARTY TRANSACTIONS

The Charter School received an advance of \$8,000 from the chief executive officer during the year ended June 30, 2017. The advance is non-interest bearing and has no set repayment terms. At June 30, 2018 and 2017 \$4,250 was due to the related party.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals For 2017)

NOTE C: RESTRICTED CASH

In accordance with the loan agreements for the 2013 and 2016 Bonds described at Note E, the Charter School is required to maintain certain reserves. The following is a summary of the fund reserves held at June 30, 2018 and 2017:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Bond fund	\$ 902,370	\$ 793,323
Earnings fund	14,372	9,805
Project fund	307,381	437,973
Reserve fund	<u>1,564,163</u>	<u>1,564,163</u>
	<u>\$ 2,788,286</u>	<u>\$ 2,805,264</u>

NOTE D: LINE OF CREDIT

The Charter School has a \$100,000 line of credit agreement with a bank. The line of credit calls for an annual interest rate equal to the Wall Street Journal Prime Rate plus .75% for an effective rate of 5.75% at June 30, 2018. At June 30, 2018 and 2017, there was \$94,952 and \$98,818 respectively, outstanding under this arrangement.

NOTE E: BONDS PAYABLE

On March 21, 2013, Build NYC Resource Corporation provided construction and permanent financing through the issuance of \$17,750,000 in Tax-Exempt Revenue Bonds (the "Series 2013 Bonds"). Principal is due at varying amounts annual through maturity on July 1, 2043. The proceeds from the sale of the bonds, together with other available funds were used to: (i) refinance or reimburse the Charter School for certain costs of acquiring, constructing, renovating, equipping, and furnishing its future educational facility; (ii) fund the service reserve fund established under the indenture in an amount equal to the debt service reserve fund requirement of the bonds; (iii) cover interest on the bonds during construction, for a period of 16 months; and (iv) pay certain costs of issuing the Series 2013 Bonds. Interest on the bonds is payable semiannually, computed on the basis of a 360-day year of twelve 30-day months.

On July 15, 2016, Build NYC Resource Corporation provided \$2,905,000 in Tax-Exempt Revenue Bonds (the "Series 2016A Bonds"), with interest calculated at 6.25% per annum, and \$395,000 in Taxable Revenue Bonds (the "Series 2016B Bonds"), with interest calculated at 5%, for a total of \$3,300,000 (collectively, the "2016 Series Bonds"), for renovations and equipment purchases, establishing reserve accounts, and for costs related to the issuance of the bonds. Provisions of the debt provide for payments of interest only on the Series 2016A Bonds through June 2022, then principal and interest payments through maturity (July 1, 2046), payments of interest only on the Series 2016B Bonds through July 2018, and then principal and interest payments through maturity (July 1, 2021).

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals For 2017)

NOTE E: BONDS PAYABLE, Cont'd

Interest payments are due semi-annually on January 1 and July 1 of each year. These bonds are secured by the pledge and assignment to the Trustee of the Trust Estate for the benefit of the holders of the Bonds. The obligations of the Charter School under the loan agreement are secured by the mortgages assigned to the Trustee for the benefit of the holders of the Bonds.

Bonds payable are summarized as follows:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
2013 tax exempt bonds at 5.00% per annum, interest paid semiannually, principal paid annually. Bonds mature July 1, 2023.	\$ 2,085,000	\$ 2,375,000
2013 tax exempt bonds at 5.75% per annum, interest only payments through July 2023, then interest and principal payments through maturity in July 2033.	5,360,000	5,360,000
2013 tax exempt bonds at 6.00% per annum, interest only payments through July 2033, then interest and principal payments through maturity in July 2043.	9,470,000	9,470,000
2016 taxable revenue bonds at 5.00% per annum, interest only payments through July 2018, then interest and principal payments through maturity in July 2021.	395,000	395,000
2016 tax exempt bonds at 6.25% per annum, interest only payments through June 2022, then interest and principal payments through maturity in July 2046.	<u>2,905,000</u>	<u>2,905,000</u>
	20,215,000	20,505,000
Less unamortized bond issuance costs	<u>(920,696)</u>	<u>(954,463)</u>
	19,294,304	19,550,537
Less current portion of bonds payable	<u>365,000</u>	<u>290,000</u>
	<u>\$ 18,929,304</u>	<u>\$ 19,260,537</u>

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals For 2017)

NOTE E: BONDS PAYABLE, Cont'd

Future maturities of bonds payable are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 365,000
2020	425,000
2021	450,000
2022	475,000
2023	425,000
Thereafter	<u>18,075,000</u>
	<u>\$ 20,215,000</u>

Under the terms of the bonds payable, the Charter School is required, among other things, to maintain certain financial covenants and operating ratios. As of June 30, 2018, the Charter School was not in compliance with certain of these covenants. By letter dated October 31, 2018, the Bond Trustee waived the requirements of these covenants for the year ended June 30, 2018.

Total bond issuance costs of \$1,029,890 are being amortized over the life of the bonds. Interest expense, inclusive of bond issuance cost amortization of \$33,767, was \$1,215,735 and \$1,222,400 for the years ended June 30, 2018 and 2017, respectively.

NOTE F: OPERATING LEASE

The Charter School leases office equipment under a non-cancelable lease which expires in December 2018. Aggregate future minimum payments under this lease are expected to approximate \$600. The Charter School had several other leases which expired at various dates during the years ended June 30, 2018 and 2017. Total lease expense for the years ended June 30, 2018 and 2017 approximated \$12,000 and \$9,000, respectively.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals For 2017)

NOTE G: RETIREMENT PLAN

The Charter School sponsors a 403(b) retirement plan covering all regular employees. All employees are immediately eligible to begin making voluntary contributions. The Plan allows for the Charter School to make a discretionary contribution to the plan. The Charter School contributed approximately \$1,000 and \$38,000 for the years ended June 30, 2018 and 2017, respectively.

NOTE H: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE I: CONCENTRATIONS

At June 30, 2018 and 2017, approximately 100% and 97%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2018 and 2017, 95% and 85%, respectively, of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE J: SUBSEQUENT EVENT

In August 2018, the New York State Education Department (NYSED) notified the Charter School that it had over-allocated approximately \$23,955 in Title IIA funding to the Charter School for the year ended June 30, 2018. NYSED will reduce the Charter School's Title IIA funding for a period of up to five years to recoup the over-allocated funding. The Charter School has not accounted for this over-allocated funding as a liability as of June 30, 2018.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL
REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
International Leadership Charter High School

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of International Leadership Charter High School, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 1, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered International Leadership Charter High School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of International Leadership Charter High School's internal control. Accordingly, we do not express an opinion on the effectiveness of International Leadership Charter High School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether International Leadership Charter High School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of International Leadership Charter High School in a separate letter dated November 1, 2018.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
November 1, 2018

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

Finding 2017-001

Statement of condition

During the 2017 audit, the prior auditors noted that many basic analyses were not available at the beginning of the audit fieldwork, including bank reconciliations for the last three months of the 2016/2017 fiscal year, accounts payable subsidiary ledger support, reconciliation to the trial balance amounts, and payroll reconciliations to the trial balance. As both bank and account reconciliations were prepared, many were not reconciled properly and the review process did not appropriately identify the necessary additional adjustments, which necessitated several year-end material post-closing adjusting journal entries. Payroll procedures are done by one individual without regard to segregation of duties. The individuals responsible for preparing and reviewing the financial information had changed over the course of the 2016/2017 fiscal year. In addition, findings 2017-002, 2017-003 and 2017-004 all relate to the criteria above as well.

Criteria and effect of conditions

The School is required to document adequate controls and implement those controls with respect to:

- Preparing and maintaining financial statements and records in accordance with generally accepted accounting principles;
- Payroll procedures;
- Accounting for contributions and grants;
- Procedures for the creation and review of interim and annual financial statements, which procedures include identifying the individuals who are responsible for preparing and reviewing such financial statements and ensuring that such statements contain valid and reliable data;
- Existence of appropriate internal financial controls and procedures; and
- Safeguarding of assets including cash.

The Charter School has provided several account analyses which have not identified the necessary adjustments to correct the account balances and, therefore, several adjusting journal entries were identified by the auditors.

Recommendation

We recommend that the Charter School reconsider its formal internal financial control procedures and its review processes regarding the preparation and review of interim financial statements, and the reconciliation processes to prepare those statements. We recommend that a process be implemented whereby all subsidiary ledgers and/or supporting schedules are reconciled to the general ledger on a monthly or quarterly basis, and appropriate management-level personnel review the reconciliations for accuracy. This process should be formally documented. These procedures will help to ensure that account balances are accurate, as well as reduce the number of year-end journal entries and ensure that the monthly financial statements have been prepared utilizing accurate numbers. As well, account analyses will help ensure a timelier close of the year-end audit process. The Charter School should also consider adoption of a formal set of policies and procedures related to the audits of the financial statements which includes a timeline to ensure that all supporting schedules are completed prior to the start of the financial statement audits and that the audits will commence before a specific deadline to ensure adherence to New York State Department of Education requirements.

In addition, the recommendations cited in the other findings following should be taken into consideration as well.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, Cont'd

YEAR ENDED JUNE 30, 2018

Management's response

We reviewed your findings and recommendations and acknowledge delays in providing essential data. The gaps were as a result of a financial business management company whose services were terminated in January 2017. The board determined it would be in the best interest of the Charter School to directly hire staff for greater consistency and accountability. The transition resulted in delays in retrieving some of the documentation. We are in the process of hiring a reputable financial consulting firm that is better suited to meet the complexity of our charter school finance needs and municipal bond.

Current status

During our 2018 audit, we noted an improvement in preparing and maintaining financial reports and records in accordance with generally accepted accounting principles. Further, revisions were made to the Financial Policies and Procedures Manual to improve the Charter School's internal controls.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, Cont'd

YEAR ENDED JUNE 30, 2018

Finding 2017-002

Statement of condition

During the 2017 audit, the prior auditors noted reconciliations of the per pupil funding as a result of the Charter School revising the final invoice submitted to the New York City Department of Education (NYCDOE). The Charter School made several adjustments to the final headcount of the students that attended the Charter School during the year. These changes affect the balance recorded as student revenue for the school year.

Questioned costs

\$275,000

Criteria and effect of conditions

Procedures should be in place to ensure the Charter School is only invoicing NYCDOE for the students that have enrolled and are in attendance for the school year. The Charter School is required to maintain adequate records to support the existence of students enrolled during the year.

The Charter School received an overpayment of \$275,000 from NYCDOE to be repaid over three installments.

Recommendation

The Charter School should omit students that did not show up for class from the bimonthly invoicing. The Charter School should mark these students as "No Shows" during the bimonthly invoicing. Further, the Charter School should maintain physical records of attendance on a monthly basis to support the bimonthly invoices to NYCDOE. Lastly, the Charter School should maintain a physical record of change forms of new students withdrawing from the Charter School.

Management's response

Pursuant to New York's Charter Schools Act, charter schools are publicly funded based on a statutory formula taking into account the number of students enrolled at a charter school and certain adjusted school district expenses and state aid. The tuition is paid for by the school district of residence of the enrolled student, which, for ILCHS's students, is NYCDOE. The NYCDOE and the charter schools in which its resident children are enrolled engage in an annual reconciliation process. We have reviewed your recommendations and the premise here is incorrect and we do not agree. The billing and reconciliation process is defined and governed by the NYCDOE. ILCHS has no control over the procedures established by the NYCDOE for those processes. The NYCDOE uses a computer billing system and defines how enrollment must be reported, including how and when a school can remove from its roster students who are not in attendance, and charter schools are unable to alter those procedures or offer modified procedures that would capture actual enrollment at the time of reporting. Therefore, our Charter School cannot unilaterally create and implement procedures to ensure the Charter School is invoicing the NYCDOE only for students actually enrolled and in attendance. That is why the NYCDOE engages each school in a reconciliation process each year. The Charter School takes and maintains records of our daily attendance and has been in compliance with this expectation for 12 years.

Current status

During our 2018 audit, we noted no material instances where the Charter School invoiced NYCDOE for students not enrolled nor in attendance during the school year.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, Cont'd
YEAR ENDED JUNE 30, 2018

Finding 2017-003

Statement of condition

The prior auditors noted several invoices/vouchers that did not have check vouchers completed entirely. Additionally, there was no requirement that the Manager of Finance approve the expense in writing. As such, there is a possibility that an invoice may be improperly paid. In those instances noted, only one signoff was present. The dual approval control is an effectively designed control; however, it does not appear to be in operation at all times.

Criteria and effect of conditions

As part of its internal controls, the Charter School's Financial Policies and Procedures Manual requires the Manager of Finance to assemble a payment package for all cash disbursements which includes the check voucher, the purchase request or purchase order, invoices and packing slips, and receiving report. The check voucher should be completed, which includes the date, name and address of vendor, vendor code, amount, and account number.

There were several vendor invoices that carried previous balances, which the Charter School paid multiple times.

Recommendation

We recommend that the Charter School ensure that the dual-approval internal control is properly followed in all instances.

Management's response

We have reviewed your findings and recommendations. Our Charter School has revisited our internal policies and procedures and we will ensure that all procedures will be followed. Due to the interruption of service during the transition from the financial services company to Finance Director, some of those procedures were not as clearly recorded as they should have been. However, our CEO does not, and has not, signed checks without the proper supporting documentation, which includes, payment voucher, invoice, etc. In addition, our new authorizer, SUNY CSI, is also requiring us to revise our fiscal policy and we have identified a financial service firm that has the ability to do so and to assist our charter school with all matters related to fiscal controls and support.

Current status

During our 2018 audit, we noted the Charter School began using Bill.com in April 2018 in accordance with its new Financial Policies and Procedures Manual to ensure proper payment approvals are obtained.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, Cont'd
YEAR ENDED JUNE 30, 2018

Finding 2017-004

Statement of condition

Due to the lack of segregation of duties and supporting documentation as noted in the previous finding, the Charter School should consider reducing its threshold for transactions requiring dual signatures.

Criteria and effect of conditions

As part of its internal controls, the Charter School's Financial Policies and Procedures Manual requires dual signatures for all transactions, exclusive of interbank transfers, with amounts exceeding \$20,000.

Several transactions that fell under the current threshold did not have the necessary level of scrutiny required to properly record said transactions.

Recommendation

We recommend that the Charter School reduce its threshold for transactions requiring dual signatures. A reduction in required signatures will enhance the Charter School's understanding of all general ledger transactions and will help with the Charter School's reconciliation of required general ledger accounts.

Management's response

We have reviewed your findings and recommendations and the board of trustees will consider lowering the threshold for dual signature.

Current status

During our 2018 audit, we noted the Charter School began using Bill.com in accordance with its Financial Policies and Procedures Manual to ensure proper payment approvals are attained. As checks are cut directly by Bill.com, dual approvals, rather than dual signatures, are required in certain circumstances in accordance with the FPPM.